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C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 001197

SIPDIS

STATE ALSO FOR EAP/BCLTV, EB
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OASIA JEFF NEIL
USPACOM FOR FPA

E.O. 12958: DECL: 09/23/2013
TAGS: ETRD ECON EPET PGOV BM
SUBJECT: NO JOY FOR BURMA'S TRADERS

REF: RANGOON 1184

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.5 (B,D)

¶1. (SBU) Summary: After claiming with much fanfare to have had a USD 700 million trade surplus last year (a claim doubted by most not dressed in a uniform), the Burmese government will not likely repeat the farce this year. Admittedly making an accurate assessment of Burma's trade balance is a fool's errand, as much of the Burmese trade balance is unaccounted for (narcotics out, weapons in, and everyone cheating on invoices). However, we can predict that if economic bumbling continues, tough new U.S. economic sanctions ought to put the official trade balance into the red for the current fiscal year (ending March 30, 2004). End summary.

Legally, Exports and Imports are Down...

¶2. (C) The prognosis for the country's primary export commodities is mixed, but generally down. Imports are also suffering from increasingly tight government controls. We are loath to make any firm statement on dollar amounts, as reliable statistics are not provided by the GOB. Numbers we can provide are based on GOB data, IMF statistics (based on the GOB numbers), or anecdotal evidence gathered from sources of varying reliability.

(i) Oil and Gas: This is the anchor for Burma's foreign exchange earnings. It is one of the few sectors that still attracts any foreign investment (with a USD 44 million inflow in FY 2002-03, according to the GOB). Reliable energy industry sources estimate that natural gas sales to Thailand from the offshore Yetagun and Yadana fields will amount to USD 650 million - USD 700 million this calendar year (though Burmese government estimates are closer to USD 900 million). Despite U.S. sanctions that ban the remittance of U.S. dollars into Burma, natural gas payments will likely remain in U.S. dollars, payable into Burmese government accounts in Singapore. Forecast: Stable and solid foreign exchange earner.

(ii) Timber: The official forecast for timber (mostly teak) exports, the second largest export in FY 2002-03 accounting for about USD 300 million, is bad. One experienced timber merchant told us that the government had not allowed any new private cutting permits or private exports of sawn timber since May. The reason is unclear, but the source told us the regime was reassessing all private sector contracts to try and eradicate, or re-apportion, some of the corruption that plagues the timber industry. Three notes: Unless timber exporters find a replacement market, the cut-off of exports to the United States could slice USD 3 million off Burma's export earnings. Second, the government has the monopoly on, and continues to export, logs and some sawn timber -- with tenders now denominated in euro. Finally, official statistics and our forecasts do not take into account the significant illegal logging that occurs, particularly by businesses operated by Kachin ceasefire groups in the Kachin-China border zones. Forecast: Legally down significantly.

(iii) Beans and Pulses: Exports of beans and pulses (9 percent of exports in FY 2002-03), almost entirely to India, will remain a reliable export, though volume and earnings will likely dip. Earnings will be hit by declining quality combined with a near monopsony by Indian buyers and soft demand. Agribusiness contacts tell us the beans and pulses trade (not easily moved to border trade) has adapted to U.S. sanctions by moving offshore, with settlements of contracts done in U.S. dollars in Singapore banks. However, volume is still 25 percent off of what it was last year at this time, after dropping 50 percent or more in the weeks after the sanctions were applied. Forecast: Down significantly.

(iv) Seafood: Fish and prawns, accounting for about USD 150 million in FY 2002-03, are a relative bright spot. The new import ban will cut into export earnings and volume -- possibly USD 10 million for CY 2003. However, reliable sources have told us some exporters have been sending their products to Malaysia and Indonesia for relabeling and onward

export to the United States. Also hitting export volume, many seafood exporters are voluntarily cutting back their business rather than face government pressure to use their export earnings to import government-priority items. On the other hand, some opportunistic seafood exporters are taking advantage of the situation to expand exports, using euro L/Cs, in exchange for GOB promises of import licenses to bring in potentially lucrative diesel and palm oil shipments. Also, FDI in the fisheries sector is comparatively good (about USD 26 million in FY 2002-03). Forecast: Stable and reasonably reliable foreign exchange earner.

(v) Rice: A real unknown. Without warning in April the government announced the liberalization of rice exports -- a long-desired agricultural reform. Thus far, major private sector exporters are wary of jumping in because of very uncertain profit margins due to high domestic prices, low international prices, and unclear government pricing and profit-sharing provisions of the new policy. However, some companies and associations close to the government will take the plunge, and the parastatal agricultural product exporter, Myanmar Agricultural Product Trading (MAPT), will likely play a behind-the-scenes role to ensure the policy has some "successes" in its inaugural season. Production levels are still uncertain, with the harvest due to start in October or November. The weather has been OK, but farmers this year were forced to plant without access to the credit they normally received from the government via controversial advance purchasing agreements -- canceled under the new policy. The government has said that only surplus rice that is not needed domestically can be exported, but there are not reliable statistics for production or domestic demand. Forecast: Down, but by how much is not yet clear.

(vi) Garments: The Burmese government does not consider garments a major export product, though the sector relies on exports to the United States. The revenue from garment exports is in the form of fees for the piece work the Burmese factories provide rather than from the sales of the garments themselves. Nonetheless, with the U.S. import ban in place, the majority of Burmese garment factories will gradually shutter -- one estimate was that 99 factories had shut since the new sanctions took hold with a loss of 25,000-40,000 jobs. Assuming exports to the United States would have held steady for the remainder of CY 2003, Burma's resulting loss in foreign exchange will probably be around USD 20 million, with a net loss to GOB coffers of perhaps USD 5 million in taxes and fees. Forecast: Basically zeroed out.

¶3. (SBU) Though overall exports look weaker this year, the government has been squeezing tight on imports as well. The regime still requires all import licenses be backed by dollars earned by exporting. Even with these export dollars in hand, traders complain heartily of the government's recent refusals to approve more than 25-50 percent of an importer's request. Though this import policy has been particularly miserly in the last six months, we see it worsening as the country's foreign exchange reserves decline due to sanctions and drooping exports.

...But What's Law Got To Do With It?

¶4. (SBU) When pondering trade balances, you have to consider the uncountable informal trade flows that wash across the Chinese, Thai, and Bangladeshi borders. There are also a number of intangible factors that arise due to the convoluted nature of the Burmese economy and the mind-bending distortions it creates. These two aspects of Burma's international trade make an accurate assessment of trade balance quite tricky.

¶5. (C) On the export side, Burma remains a major producer of illegal narcotics (opium and amphetamine type substances), though this export commodity is also suffering from increased regional vigilance. Ceasefire groups also conduct a very lucrative and undocumented trade in timber and gems, particularly from Kachin State. Rice paddy is also illegally shoveled in vast quantities into the Bangladeshi maw. Finally, exporters are famous for lying on their manifests -- declaring only 70 percent of the true value of their sales to authorities, and receiving the difference in hard currency under the table from sympathetic foreign buyers.

¶6. (C) In recent days, exports are also suffering as imports get squeezed. The reason? Exporters have made piles of money selling their export revenue at a tidy premium to importers desperate for cash (remember, importers can only import as much as they have export foreign exchange to pay). As the demand for legal imports drops, the demand (and thus market premium) for the export dollars drops. The loss of this profitable side business is another disincentive to exporting at full capacity (see Reftel for discussion of other exporting barriers).

¶7. (C) Imports are equally mysterious, with most "sensitive" government imports such as weapons and military equipment, and training and technology for the alleged Magway Division

nuclear power plant all going off book. Importers are also notorious for undervaluing their shipments, a necessary evil with the GOB's reluctance to grant the full amount requested for import licenses.

Comment: Can the Government Help?

¶8. (C) Government financiers and local entrepreneurs are at a loss at how the GOB could refloat easily the sinking legal trading sector. Already the government has encouraged official trade in hard currency other than dollars, and has liberalized the settlement process for legal border trade (see Reftel for explanation). Allowing the private sector to engage in barter trade would help exporters and importers as would further liberalization of border trade, like loosening import license restrictions. However, in previous experiments along these lines the government witnessed a sharp rise in imports (and outflow of foreign exchange) with little benefit to uncompetitive exports. With the foreign exchange situation likely to get more precarious, we don't think the GOB will go down that road again.
Martinez